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SUBJECT: DEPARTMENT OF ENERGY SECRETARY DISCUSSES
COOPERATION WITH IRAQI MINISTER OF ELECTRICITY

Classified By: Charge d'Affaires Margaret Scobey for reasons 1.4 (b) and (d).

¶1. (SBU) SUMMARY: In his first meetings with Iraqi energy officials on July 18, Department of Energy Secretary Samuel Bodman met with Minister for Electricity (MOE) Karim Wahid al-Hasan, Prime Minister (PM) Nuri al-Malaki, and Deputy Prime Minister (DPM) Barham Saleh. Secretary Bodman said that the Department of Energy (DOE) wants to understand the challenges Iraq faces in the energy sector and to support Iraq's development priorities in the energy sector. The Prime Minister and Minister Karim stressed the need to reduce terrorist sabotage of energy infrastructure. Noting that security is not a function of the DOE, Secretary Bodman described the assistance DOE could provide as the "scientists and engineers of the American government." He presented to Minister Karim a draft Memorandum of Understanding that focused primarily on human capacity building through study tours to the U.S. Secretary Bodman also offered policy advice in areas such as electricity load management, though he acknowledged that Iraq's electricity sector would need to become more sophisticated before greater technical assistance could be provided. Secretary Bodman told his Iraqi counterparts that the private sector, not the U.S. Government is the locus of knowledge and resources, and strongly encouraged them to open the electricity market to foreign investment. END SUMMARY.

Security of Electricity Infrastructure a Primary Concern

¶2. (C) Minister Karim told the visiting DOE Secretary Bodman that stopping sabotage of power transmission lines is one of his Ministry's most important challenges. Karim said security-related measures account for a large portion of the Ministry's budget, constraining development of new electricity generation capacity. Although a large percentage of electricity is consumed in the capital and surrounding cities, most generation takes place in the north (hydroelectric) or the south (thermal). Baghdad itself has almost no capacity for electricity generation, so efficient transmission is critical. While Emboffs pointed out that generation facilities are largely considered secure, Karim lamented that the Ministry has almost no way to defend against sabotage of transmission lines. The Iraqi police are able to protect facilities during the day but cannot patrol at night. He expressed some hope that the new Infrastructure Steering Committee, consisting of Iraqi officials and Coalition forces, could improve the situation but underscored that the Committee is still developing programs.

¶3. (SBU) In Secretary Bodman's meeting with Prime Minister Maliki, the PM also emphasized the importance of improved security to getting Iraq back on its feet, describing how terrorist attacks on oil and electricity infrastructure are a serious obstacle to overall reconstruction efforts. He also

pointed out that growth in the energy sector would lead to job creation, gainfully employing potential terrorists and diminishing violent activity. Secretary Bodman stated that while DOE does not play a role in security from terrorist attacks, DOE can help Iraq with overall management of oil and power systems.

Increasing Power Generation

¶4. (C) Minister Karim stressed that, since security of power transmission lines is his primary concern, devoting resources to this activity has forced the Ministry to delay plans for increasing generation capacity. This problem is such a drag on the budget that Karim estimates the Ministry will need an additional US\$20 billion to meet electricity demand 24 hours a day. Minister Karim also noted that demand for electricity is increasing. He anticipates an additional 2000 megawatts per year will be necessary to keep up with demand.

¶5. (C) Secretary Bodman emphasized that DOE has limited funds for assistance for Iraq, but offered support in the form of technical expertise and human capacity-building. The Memorandum of Understanding (MOU) between the DOE and MOE presented by Secretary Bodman was described as broad enough to accomplish joint objectives, and open enough to incorporate the feedback DOE expected to gain from meetings with MOE officials. PM Maliki stressed in a meeting that he wanted the MOU to be clear and establish a strong basis for cooperation. The proposed activities to be undertaken through this MOU were primarily related to training - including study tours to the U.S. to visit regulatory authorities, such as the Federal Energy Regulatory

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Commission, and to visits with the private sector. Secretary Bodman told the PM that, while the U.S. government plays a role in advancing the energy sector, the private sector is where the money and knowledge really resides. He encouraged both Minister Karim and PM Maliki to strongly pursue opening the energy sector to private investment.

¶6. (C) Ministry officials requested outreach assistance in multiple forms - one being help in obtaining funding from donors such as the World Bank. The Minister also noted that the GOI has signed a contract with General Electric (GE) for delivery of generation units, but that they are in a queue to receive units and will wait 18 months for final delivery. He requested that the Secretary look into the matter and see if he could assist in hastening delivery to Iraq.

Electricity Tariff Reform: Not Yet

¶7. (SBU) Economic Minister-Counselor noted that the GOI does not charge consumers an adequate rate for electricity. A tariff rate that leads to a more rational, market-based power system would help consumers make smarter choices about electricity usage. The Minister agreed in principle, and said the Ministry is looking to undertake limited tariff reform. They are also studying a system for improved collection. The Minister referred to a program in the south of Iraq that has been fairly successful. He stressed, however, that a reliable supply of power available for a sufficient number of hours a day is a necessary precondition for improving collection rates. Iraqi consumers have come to view electricity as a free, government provided service, so a public education program is needed before electricity rate increases. The Minister also suggested that an ineffective billing system, exacerbated by Iraq's underdeveloped banking sector, presents a further challenge.

Karim Calls for Help on International Water Dispute

¶18. (C) The Minister noted that water-sharing with Iraq's neighbors on the Euphrates River and other waterways is another growing challenge. Lack of international coordination during the Saddam regime allowed Turkey and Syria disproportionate water usage for power generation and irrigation, and has resulted in reduced water flow and lowered water quality in the shared waterway. He expects the volume of the Euphrates to be reduced by a third by the year ¶2030. The lowered volume will preclude hydroelectric generation in the middle and southern regions of Iraq. Under the new government, Minister Karim hopes discussions with Turkey and Syria regarding water resources can start anew, but stressed Iraq would need international backing in the appropriate forum to be effective.

Energy Planning

¶19. (C) Karim's Ministry has developed a Master Plan for development of the electricity sector, which includes immediate, five and ten year plans for improving generation and distribution. The draft plan calls for measures to increase generation as well as transmission, and aims to provide electricity for 12 hours per day in the short-term. (NOTE: Emboffs who reviewed the Master Plan were disappointed by its lack of detail and clear vision. The USG has offered to support a redrafting of the plan. END NOTE)

¶10. (C) On long-term planning, Minister Karim said the Energy Committee, chaired by DPM Saleh, will attempt to create a national energy policy for Iraq. In Secretary Bodman's meeting with DPM Saleh, Saleh spoke of possibly creating a Ministry of Energy in the future, merging planning and regulatory functions for both oil and electricity into one Ministry. Secretary Bodman noted that DOE's structure and organization could provide insights for the restructuring of Iraq's energy sector.

Comment

¶11. (C) The meetings between Secretary Bodman and DOE staff and their Ministry of Electricity counterparts demonstrated that the immediate priorities of the Ministry are mainly on large-scale investment in infrastructure - not an area in which the DOE could provide support. Discussions of planning for the electricity sector and capacity-building for Ministry

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staff did, however, reveal areas in which increased cooperation between DOE and the MOE could be valuable. The Secretary carefully managed expectations regarding financial

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commitments. He emphasized that the U.S. was not in Iraq to dictate terms and that the DOE was available to support the GOI with policy advice - including pointing out if the GOI was heading in the wrong direction. The Prime Minister responded with "that is what friends do for each other." The PM expressed hope that energy Ministry officials would further advance their relationships with DOE when in Washington later in July.

¶12. (U) This message has been cleared by DOE.
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